

**STATEMENT OF  
CHARLES N. MARSHALL  
SENIOR VICE PRESIDENT OF INDUSTRY RELATIONS  
FARMRAIL**

**BEFORE THE  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
HEARING ON RAIL COMPETITION AND SERVICE**

**SEPTEMBER 20, 2007**

**American Short Line and  
Regional Railroad Association  
50 F Street, N.W.  
Suite 7020  
Washington, DC 20001  
(202) 628-4500**

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today on the subject of Rail Competition and Service. I am Senior Vice President of Industry Relations for Farmrail, a 347-mile short line serving western Oklahoma. [ I have worked for eight different railroads, including both short lines and Class I's, over the past 46 years.] I am here today representing the American Short Line and Regional Railroad Association (ASLRRA). ASLRRA is composed of about 500 small railroads that employ 23,000 people to operate 50,000 miles of track serving 13,000 customers. Those customers collectively employ about 1.5 million persons.

We are not the largest interest to appear before you today, indeed in market share and annual revenues we may be the smallest. Our importance is not our size or our total market share but in who and where we serve. For large areas of the country and particularly for small town America short line rail service is the only connection to the national railroad network. For the small businesses and farmers in those areas, our ability to take a 25-car train 75 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car unit train and move it across the country. Our importance in agricultural areas is magnified by the nature of the business. In the Chairman's state of Minnesota, for instance, a short line is the only rail connection for the Minn-Dak Farmers Cooperative. This is just one shipper but it collects and markets the grain for over 500 family farmers. In nearby Edgeley, North Dakota a short line is the only rail connection for Dakota Prairie Ag which collects and markets grain for approximately 1,300 area farmers. I can repeat these examples across country.

In the time I have today I would like to emphasize a number of points that relate to the subject of regulation, rail competition, and shipper relationships.

First, today's short line industry is largely the product of deregulation launched by the 1980 Staggers Act and the federal government's decision that it was better to save light density branch lines than to abandon them. Short lines have grown from 8,000 miles of track in 1980 to nearly 50,000 miles today. Those areas we serve are not inconsequential. In five states short lines operate 100 percent of the state's rail network. In 10 states they operate more than 50 percent and in 30 states they operate at least 25 percent of the rail network. Forty eight Members of the T&I Committee represent districts in these 30 states. The short line industry has preserved service and jobs because of deregulation and that success will be put in great jeopardy if we turn back the clock.

Second, from where we sit competition for business is fierce. And, where we sit is in the trenches where we compete daily, carload by carload with trucks and in some areas of the country with barges. Carload traffic is referred to as general merchandise traffic which is generally considered everything other than coal and intermodal. Nationally, short line railroads handle approximately 42 percent of all general merchandise rail traffic. In the general merchandise category short lines handle more than half of all rail shipments in five major commodity groups: pulp and paper; lumber and wood products; waste and scrap; metals; and food products. The competition for this traffic is based on price and on service and it is intense. We often win or lose business based on pennies a ton.

Short lines are the so-called "first mile-last mile" handler for over 12 million carloads annually or nearly one out of every four carloads moving on the national rail network. As such we are also exposed to competition every time we negotiate a division of rates with our Class I partners. And again, I can tell you that the competition, particularly with regard to price is intense. If, as some claim, there is a lack of competition in the railroad industry, we haven't gotten the memo.

Third, short line success is highly dependent on the success of our Class I partners. When their traffic declines, our traffic declines and because we operate light density lines to begin with, that is revenue we can ill afford to lose. As my Class I colleague points out, railroad capital needs are higher than any other industry in the country. It is high for the Class I's, but it is even higher for the Class II's and III's. We inherited the money losing branch lines of the pre-Staggers era rail network and these lines have an enormous backlog of deferred maintenance. Class I's reinvestment 17.2 percent of revenue. Short lines are spending approximately 30 percent of annual revenue on track and equipment improvements.

I believe a decline in Class I investment, of the magnitude described by the Class I's, will also have a disproportionate impact on the short line industry. In many ways short line railroads are at the outer edges of the national rail network. If the Class I's are forced to reduce investment in the billions of dollars, they will, as would any business, protect their highest density core first. The first cuts are likely to be in that infrastructure closest to the areas where the short lines connect. That will make our ability to successfully compete with trucks even more difficult.

Fourth, and finally, I would like to comment briefly on the subject of our shippers. Much of the rhetoric in Washington seems to automatically presume that this is the shippers versus the railroads and that there is a deep divide between them. While I certainly don't speak for the nation's shippers, I do want to highlight to the Committee the support that the short line railroad industry is receiving from railroad shippers. As you know our highest legislative priority is the extension of the short line rehabilitation tax credit which we believe is one of the most important things Congress can do to help make us more competitive, efficient and safe. Our current House legislation, HR 1584 has 178 co-sponsors. It has also been publicly endorsed by over 1,000 shippers and by the NIT League. Our shipper support list ranges from the smallest grain elevators to much larger facilities owned by such companies as International Paper, Kimberly-Clark, General Mills and Nucor Steel. As we have collected these endorsements we have compiled a representative sample of quotes from individual shippers which document the importance of short line railroad service to their own businesses. If you can take a few moments to go through these I think you will find that at least on the short line side of the equation shippers and railroads have a much closer relationship than the conventional Washington DC wisdom may lead you to believe.

I appreciate the opportunity to present the views of the short line industry on these important questions and I would be pleased to answer any questions you might have.

## Short Line Railroad Customers Talk About Service and the Short Line Rehabilitation Tax Credit

---

R.A. Geurts, AVP & General Manager – Cargill, Inc., Wahpeton, North Dakota  
*A Customer of the Red River Valley & Western Railroad*

Cargill's Wahpeton facility ships thousands of cars a year over the Red River Valley & Western (RRVW). It operates on a 24/7 basis and cannot afford any interruption in bringing in raw materials or shipping out finished product. Said Mr. Geurts, **"The RRVW was very involved in our site selection process for this facility and has provided exemplary service since the plant's inception. They understand the importance of flexible, customer-based service. They know we depend on daily high quality rail service to operate profitably. Our plant has 160 employees and I can assure you that our success as a business is important to each and every one of them."**

May-May Ng, Director – CK International, Ltd., Waukee, Iowa  
*A Customer of the Iowa Interstate Railroad*

CK International, Ltd., exports Iowa agricultural products to Asia. Utilizing the Iowa Interstate Railroad allows them to ship heavier loads than can be accommodated by truck. **"The ability to load heavier freight cars reduces our freight costs by 2.5 cents per pound. In this very competitive market the ability to reduce costs by as little as 1/8 of a cent per pound can make the difference in getting the business."**

Warren Fisk, General Manager – Farmers' Cooperative Elevator, Manly, Iowa  
*A Customer of the Iowa Northern Railway*

The Section 45G tax credit made it possible for the Iowa Northern Railway to complete a \$1.5 million track rehabilitation between Manly and Nora Springs to better serve the Farmer's Coop Elevator at Manly, and Rock Falls Grain and Cartersville Elevator at Nora Springs. Without this upgrade, the railroad could not handle the increased volume required by the customers. **Warren Fisk of the Farmers' Coop said, "The Iowa Northern track rehabilitation project will help us increase volumes and lower transportation costs and that is good for every farmer that uses the elevator. To the extent the short line tax credit made that possible it is a real success story."**

Sonia Meehl, Owner/General Manager – Crete Grain, Crete, North Dakota  
*A Customer of the Red River Valley & Western Railroad*

Crete Grain purchases grain from North Dakota farmers for resale to exporters and domestic end-users, mostly outside of the state. The majority of the grain is moved to the Pacific Northwest ports for export. In recent years Crete has shipped over 4,000 carloads of grain per year on the Red River Valley & Western which is the only link to the Class I railroad system. **"Truck transportation is simply not feasible for moving large volumes to the west coast ports. We collect our corn from over 200 family farmers and the railroad is what allows us to find markets for this corn. Without the short line railroad these farmers would be limited to**

**what they could truck short distances within our state. For many it is what makes their farming operation viable,” said Sonia Meehl, owner and general manager of Crete Grain.”**

David Geers, President – Michigan Agricultural Commodities, Lansing, Michigan  
*A Customer of the Huron & Eastern Railroad*

Michigan Agricultural Commodities owns 10 grain elevators in Michigan, two of which ship some 3,000 railcars a year over the Huron & Eastern Railroad. Most of these cars are bound for processors and feed mills in the southeastern U.S. **“We purchased these two facilities in 2001 and have experienced significant growth at both. Reliable short line service has contributed to that growth. In fact, nine of our 10 locations are served exclusively by short line railroads and they are part of what has helped us make Michigan agricultural products very competitive throughout the southeastern U.S.,”** said David Geers, president of Michigan Agricultural Commodities.

Ronald Harlow, Dixie Business Director – Georgia Pacific, Naheola, Alabama  
*A Customer of the Meridian & Bigbee Railroad*

The Meridian & Bigbee Railroad serves 22 customers in central Alabama and Mississippi. Those customers in turn employ over 3,900 high quality, industrial workers. The Section 45G credit allowed the railroad to undertake an aggressive \$5.6 million improvement project. With the renovations, the railroad will be able to attract new industries and jobs to the region while continuing to provide high quality service to existing customers. **“The Georgia-Pacific mill at Naheola depends on the Meridian & Bigbee Railroad to provide critical rail service,”** said Ronald Harlow, director of Dixie Business for Georgia-Pacific Corporation, the largest single on-line customer.

Gene Carrier, General Manager – East Texas Asphalt Company, Lufkin, Texas  
*A Customer of the Timber Rock Railroad*

The Timber Rock Railroad provides a crucial connection to the BNSF and KCS Railroads, necessary to deliver needed aggregate into east Texas. The Timber Rock utilized the Section 45G tax credit to make needed bridge improvements to handle long heavy trains of rock cars and deliver them safely and economically to deep east Texas. **“We count on the Timber Rock to supply multiple grades of aggregate to meet the construction needs of our region,”** said Gene Carrier, General Manager of East Texas Asphalt. **“Their ability to make needed repairs to the railroad allows our communities to compete economically with the urban areas that have more transportation choices.”**

Gary Beachner, General Manager – Beachner Grain, St. Paul, Kansas  
*A Customer of the South Kansas & Oklahoma Railroad*

The SKOL railroad installed more than 20,000 ties and relayed five miles of rail with a heavier, more secure type of steel to make the movement of trains safer and more reliable in Southeast Kansas. Gary Beachner of Beachner Grain said, **“Beachner Grain depends on the SKOL to move more than five million bushels of grain to market every year. It is critical for our business and for**

**family farmers throughout the area that the SKOL be able to maintain an infrastructure adequate to keep Southeastern Kansas farmers competitive in the global marketplace.”**

**Brian Whipple, Transportation Manager – Amalgamated Sugar, McMillan, Idaho**  
*A Customer of the Eastern Idaho Railroad*

The Eastern Idaho Railroad utilized the section 45G tax credit to provide for a major reconstruction of the main line between Burley and Twin Falls, Idaho. At a press conference in the summer of 2006, **Brian Whipple of Amalgamated Sugar said, “Without the Eastern Idaho Railroad, Amalgamated Sugar would not be able to be in business in the Magic Valley. We depend on the EIRR for inbound and outbound products to keep Amalgamated Sugar operating.”**

**Mike Purdy, Owner – Delta Trading Company, Bakersfield, California**  
*A Customer of the San Joaquin Valley Railroad*

Delta Trading is a distribution facility located on the Sunset branch of the San Joaquin Valley Railroad in Bakersfield, CA. **Mike Purdy of Delta Trading said, “The track rehabilitation made possible by the tax credit is directly responsible for Delta Trading Company’s decision to invest nearly \$3 million in its facility and almost triple its number of employees. We now have a short line railroad partner that can provide the volume and level of service that allows us to significantly grow our business. This tax credit was a very smart decision by the federal government and I suspect it will more than pay for itself as our experience is repeated on short lines across the country.”**

**Ron Walters, President – Erie Plastics, Corry, Pennsylvania**  
*A Customer of the Western New York & Pennsylvania Railroad*

The Western New York & Pennsylvania Railroad has used funds freed up by the Section 45G credit to match a Pennsylvania grant program to undertake a \$3.5 million project to provide stronger and higher speed railroad track that can provide more efficient and competitively priced transportation for Pennsylvania shippers. **Ron Walters, President of Erie Plastics, said, “This facility molds 30 million plastic parts a day and we bring 80 to 90 percent of our plastic resin into the plant by rail. Rail transportation is the most economical way to get our raw materials, and anything that helps make the railroad more efficient and more viable is critically important to our success.”**

**Arthur Kroot, President – Kroot Corp., Columbus, Indiana**  
*A Customer of the Louisville & Indiana Railway*

Arthur Kroot and the 60 employees of Kroot Corp. are southern Indiana’s principal scrap yard, working closely with the area’s auto manufacturing plants and steel mills. For the past ten years, the Kroot Corp’s business has heavily relied on continued investment in the Louisville & Indiana Railway, including a recent bridge replacement program made possible by Section 45G. According to Mr. Kroot, **“If we did not have this railroad, we would be out of business. The L&I has done an incredible job for us. The benefits are significant to not only industry, but the community. This is the lifeblood of our area and the auto manufacturing plants could not operate without the railroad.”**

Bill Dozier, Division Logistics Rail Manager – Georgia-Pacific, Crossett, Arkansas

*A Customer of the Arkansas, Louisiana & Mississippi Railroad*

In Crossett, AR, the Arkansas, Louisiana, & Mississippi Railroad's aggressive tie replacement program funded by Section 45G will benefit a plywood plant, a lumber mill, a paper mill, and a chemical facility, in aggregate employing 3,000 workers. The plywood plant in Crossett is the largest softwood plant in the world and the paper mill is one of largest Georgia-Pacific plants producing tissue and other paper. **According to Bill Dozier, division logistics rail manager for Georgia-Pacific Corporation, "Our company depends on the railroad and it is important that the ALM continues to reinvest in their railroad infrastructure."**

Tony Johannesen, Manager – Dakota Prairie Ag, North Dakota

*A Customer of the Red River Valley & Western Railroad*

The rehabilitation of this line allows Dakota Prairie Ag, a wholesale grain, farm supplies and field bean merchant, to ship 110 pound shuttle trains to distant export and domestic markets. This marks the first time in history that the farmers in the region will have this opportunity. **"The ability to utilize these longer, heavier trains is going to reduce transportation costs by about 10 cents per bushel and that is going to make North Dakota grain more competitive in the marketplace,"** stated Tony Johannesen, Dakota Prairie Ag manager.

Cliff Forrest, President – Rosebud Mining Company, Penfield, Pennsylvania

*A Customer of the Buffalo & Pittsburgh Railroad*

Due to the investment funds made available by the Section 45G tax credit, the Buffalo & Pittsburgh Railroad is upgrading its tracks from Dubois to Driftwood, Pennsylvania. This \$2.2m investment will enable Rosebud Mining Company to expand its coal preparation and railcar loading facility in Penfield, Pennsylvania and expand its coal mining operations in the region. This project enables Rosebud Mining to open a new coal mine in the region with forecasted shipments of 8,000 railcars (800,000 tons of coal) annually. The upgrade provides a positive economic impact to the region by creating 45 new mining jobs, 5 new railroad jobs and 30 temporary construction jobs. **Cliff Forrest of Rosebud Mining Company said, "Having the Buffalo & Pittsburgh Railroad make this investment was essential in our decision to expand the coal load-out facility, which will now enable us to handle 800,000 tons by the opening of new coal mines."**

Butch Reed, Sales Manger – Columbus Brick, Columbus, Mississippi

*A Customer of the Columbus & Greenville Railway*

The Section 45G credit allowed the Columbus and Greenville Railway to undertake a \$400,000, 2.5-mile track rehabilitation to benefit Columbus Brick. As a result of this improvement, Columbus brick has increased outbound rail from 100 cars per year in 2001 to over 550 cars per year today. For the 90 employees at the Columbus facility, it is critical to have the ability to ship via rail. **Butch Reed, sales manager of Columbus Brick noted that, "by allowing us to use 100 ton rail cars, this rehabilitation project has reduced our transportation costs and made this Mississippi company a stronger and more competitive player in our industry."**

Greg Wheelan, Plant Manager – National Gypsum, Medicine Lodge, Kansas  
*A Customer of the V&S Railway*

The largest customer of V&S Railway is National Gypsum, a building products manufacturer and one of the leading gypsum wallboard producers in the world. Before the passage of Section 45G, track conditions limited train speed on the line to below 10 mph. Improvements made because of Section 45G have increased train speed to 25 mph. **This increase in train speed has led to improved customer service. According to Greg Wheelan, local National Gypsum plant manager. “Before the improvements, several cars of our materials would bunch up, but now we are able to get to the mainline faster. The upgrades in the track and switches provided by the short line tax credit helped speed things up, lessening delays and improving reliability to the rail line.”**

Greg Gould, Vice President – Rogers Group, Inc., Bloomington, Indiana  
*A Customer of the Indiana Rail Road*

Rogers Group, Inc. of Bloomington, IN provides customers with crushed stone, sand and gravel, asphalt, and concrete masonry. Funds made available by Section 45G have allowed Indiana Rail Road to haul 3,000 tons of stone per week from the Rogers Group limestone quarry to a Hoosier Energy electrical power plant to reduce air pollution emissions. **“This simplified the transportation dynamic for our customer, who already had existing rail infrastructure. The movement of the products by rail replaced all the truck traffic, increasing safety and reducing energy consumption. The customer service provided to the power plant improved the delivery speed and reliability of our product,”** continued Gould. The dependability and sustainability of the improvements also created job security for the fifty employees at the Rogers Group location. **“Stimulating the economy, economic development and creating new jobs through the short line tax credit are the things we need to continue doing,”** lauded Gould.

David Roche, President & CEO – Minn-Dak Farmers Coop, Wahpeton, North Dakota

*A Customer of the Red River Valley & Western Railroad*

The timely and safe rail transportation provided by the Red River Valley & Western Railroad is essential to the business of the Minn-Dak Farmers Coop and its 250 employees. The Coop ships 95% of their outbound sugar and sugar products over the RRVW and they receive 100% of their inbound coal and limestone via the short line. According to Mr. Roche, **“Short lines excel in meeting the individual needs of their customers. They are local companies that are in daily contact with us and the work overtime tailoring their service to our particular needs. They do so overt track which requires substantial capital investment both to make up for past neglect and to meet the ever increasing requirements for heavier cars and faster turn around times.**

Steve McLaurin, Live Production Manager/Operations Manager – Peco Foods,  
Bay Springs, Mississippi

*A Customer of the Mississippi Southern Railroad*

The Mississippi Southern Railroad (MSR) was able to utilize the Section 45G tax credit to insert thousands of cross ties into their main line between Newton and Bay Springs, Mississippi. Until that point, this line had been embargoed by the previous Class I railroad owner due to poor track conditions. The MSR was able to use the tax credits to install enough ties on the line to re-open the railroad and resume service to their customers. **According to Steve McLaurin of Peco Foods “Our company feeds tens of thousands of chickens every day, and we count on the Mississippi Southern Railroad to be able to deliver the necessary corn and soybean meal in an economical fashion. Without the MSR being in business, and without their ability to rehabilitate and upgrade their track, we would have had to close our doors, which would have meant a meaningful loss of jobs and a major direct economic hit to our community.”**

Roger Simon, Vice President – Alma Iron and Metal, Alma, Michigan

*A Customer of the Huron & Eastern Railroad*

The City of Alma worked for some time to move the Alma Iron and Metal facility from its present downtown site along the Pine River mill pond so the city could redevelop the river front. That goal was recently accomplished when the company was able to justify relocation to an industrial park site formerly occupied by Total Petroleum. **“The availability of direct rail service at the site was a major factor in making the economics of the move work. When you consider that one railcar holds four truckloads, the economics become real clear. Ours is a very price competitive business and we cannot get to the markets we need to reach without good short line rail service,”** said Roger Simon, VP of Alma Iron and Metal.

Cliff Vennix, President – Auburn Bean & Grain, Auburn, Michigan

*A Customer of the Huron & Eastern Railroad*

Auburn Bean and Grain is a major rail shipper based in Auburn, MI. AB&G, which also has locations in Oakley, Hemlock, and Saginaw, is in the business of seed cleaning and processing and has a combined storage of 13 million bushels. **“Auburn Bean and Grain depends on the Huron and Eastern Railroad to move some 2,200 cars a year to get its product to market. The short line operates in areas the large Class I railroads no longer serve and over track that received limited investment by previous owners. The rehabilitation tax credit has allowed the railroad to increase its annual track investment by approximately \$300,000 per year. Those track improvements are critical to the success of agricultural shippers in Michigan. They improve service and help keep transportation cost down. It's a smart program that should be continued,”** said Cliff Vennix, president of Auburn Bean & Grain.

David Skjaerlund, President – Liberty Renewable Fuels, LLC, Owosso, Michigan

*A Customer of the Great Lakes Central Railroad*

**“Short line railroads like Great Lakes Central provide service over track that was going to be abandoned by the large Class I railroads. For that reason most of this track received little or no investment for many years prior to the purchase by the short line. Catching up**

**is very expensive and in rural areas such as ours small shippers do not generate enough volume to fully foot the bill. The tax credit has helped fill that gap. It allows the short line to catch up and lower operating expenses so that there is more revenue left to finish the necessary rehabilitation.”**

Jerry Moen, General Manager – Larson Grain Co., LaMoure, North Dakota  
*A Customer of the Red River Valley & Western Railroad*

Larson Grain Co. collects grain from 150 family farmers in Southeastern North Dakota. **“It is not an exaggeration to say that if this railroad could not serve our facility we would have to close down. We ship approximately 10 million bushels a year and it is just not feasible to move that kind of volume by truck. Even if could, the damage that level of truck traffic would do to our local roads would be enormous.”**

Brian Arnhalt, GM – Minn-Kota Ag Products, Breckenridge, Minnesota  
*A Customer of the Red River Valley & Western Railroad*

Minn-Kota collects grain from Minnesota and North Dakota farmers and ships approximately 4,500 rail cars per year over the Red River Valley Railroad (RRVW). According to Mr. Arnhalt, **“the tax credit is more than just the credit itself. My company recently helped RRVW finance the rehabilitation of two yard tracks that were needed to load heavier, longer trains. The tax credit helped make this upgrade economically feasible for the railroad and their willingness to proceed is what convinced us to participate. It seems to me this is a very positive outcome that the government should continue to encourage in the future.”**

# States Where Short Lines Operate at Least 25% of the State's Rail Network

Legend

At least 25% Short Lines

